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—Jim Kelly

Big Brown Boots Up

Internet companies are very hot now. That's nice. But maybe the biggest e-commerce player isn't Microsoft, Intel, AOL, Amazon, or the dot com de jour stock the punters are talking up.

While most companies are adapting to the Internet, UPS sees an opportunity to get a head start against industry rivals, such as Federal Express, DHL, and the government-backed competitors—U.S. Postal Service (USPS) and the PTT's around the world—with which it competes. Last June, the Atlanta-based, privately held firm with approximate 1998 revenues of $25 billion launched Document Exchange, a service that zips documents via the Internet in seconds rather than relying on planes, trains, or the company's ubiquitous delivery vans. Until then, someone sending sensitive material had three options: Pay a delivery service, fax it, or use e-mail. The latter two lack confidentiality, and observers have noted that up to 30 percent of faxes must be resent.

FedEx and DHL already allow customers to track packages on the Internet. But UPS's entry into on-line services is the first step into the next level of e-commerce, says James P. Kelly, the company's chairman and CEO. Relying on software created by Tumbleweed Software and Net Dox, UPS uses encryption technology that gives customers with Web access a digital fingerprint so that only the sender and receiver know what is sent, who sent it, and when—unlike e-mail and materials sent over the Web. The price ranges from $1 to $10—well below UPS's $12 minimum for package delivery. Is UPS crazy to cannibalize its core delivery business? Maybe. On the other hand, if analyst predictions that up to one-third of documents will be cyber-delivered by next year are correct, maybe it's not.

Big Brown, which has spent $9 billion on IT over the last decade, is beginning to rival Big Blue as a technology con-

UPS by the numbers

	1993	1994	1995	1996	1997	1998
Revenue ($ billions)	17.7	19.6	21.0	22.4	22.5	24.8
Domestic + Non-package	15.8	17.3	18.2	19.4	19.6	21.6
International	1.9	2.3	2.8	3.0	2.9	3.2
Operating Expenses ($ billions)	16.3	18.0	19.2	20.3	20.7	21.7
Assets ($ billions)	9.5	11.2	12.6	14.9	15.9	17.1
Net Income ($ millions)	810	943	1,043	1,146	909	1,741
Shareowners' Equity ($ billions)	3.9	4.6	5.2	5.9	6.1	7.2
Earnings as a % of revenue	4.6	4.8	5.0	5.1	4.0	7.0
Return on Equity (%)	21.1	21.9	21.3	20.7	15.2	27.0
Return on Assets (%)	8.7	9.1	8.8	8.3	5.9	10.7
Delivery Volume (in billions of packages)	2.95	3.03	3.09	3.15	3.04	3.14
Employees (000s)	286	320	337	338	331	333
Customers (millions)	1.43	1.5	1.61	1.64	1.61	1.69

ıder. Last year, it invested $1 billion on more than it spends on vehicles and ırly as much as it spends on airplanes. 'ith the fleet of 271 aircraft UPS owns or s on order, plus the 300 it charters, it ıs the 10th largest airline in the U.S.) Its ›bal telecom network, which links a ıarter of a million users in 70 internanal locations, makes UPS the largest user cellular technology in the world. Curıtly, more than half of all shipment order ormation from customers comes into the mpany electronically. Considering that PS deals with 1.6 million customers who ip 12.1 million packages and documents ily, that's saying something.

The company is also testing new techology that will enable drivers to transmit ipment information instantly to its mainımes. The backbone of all UPS's inforation services consists of two data cens with 14 mainframes and a global netork called UPSnet. In fact, the company ıims it operates the largest DB2 mainıme database in the world—larger than at of the U.S. Census Bureau. In the first ıarter of 1999, UPS plans to roll out a w Internet service that will allow anyone th Web access to place a shipment order send a package anywhere in the world.

But of all UPS's activities, its worldwide gistics unit (WWL), growing at an annual e of 42 percent in revenue, is where the lks in Atlanta are training their high-tech ns. UPS is taking on the supply chain ivities of many companies. It's given ftware-connecting data to leading ERP ftware firms, such as SAP, Oracle, and opleSoft, to create a seamless interface tween a shipper's own system and UPS's work. WWL's latest entry is creating ftware for supply chain needs of specific dustries, such as multiunit hospitals.

WWL already undertakes the outsourc- distribution of companies, including NB Technologies, a manufacturer of lead id batteries, and AlliedSignal's automoe products group, which makes Fram fils and Bendix and Autolite products. It's timated that of about $1 trillion in inven-y, up to half of that value can be freed through better supply chain manageent. Although Kelly says there are no ans to do so, turning UPS's finance subsidiary loose to finance inventory, credit guarantees, and other trade facilitation services suggests Big Brown has a GE Capital manqué in its UPS capital unit.

What separates UPS from the garden variety supply chain vendors or e-commerce companies is scale. Big Brown's end-to-end delivery touches 6 percent of U.S. GDP—99 percent of the businesses, 97 of the residences, and 100 percent of the Fortune 1000. Swimming in the data centers' 14 mainframes are precise numbers on value ordered by zip code and by household. By having perfect information about goods and services at hand, Big Brown reckons it could be the supply chain supplier of choice. No public utility, regional Bell company, cable or long distance phone company has anywhere near the same physical or virtual connectivity. Furthermore, Big Brown doesn't face the regulatory, financial, or infrastructural hurdles with which others must contend.

UPS's IT muscle notwithstanding, don't color e-commerce brown just yet. The company is still licking its wounds from price wars in Europe and the 1997 Teamster strike that left relations with the rank and file sensitive. Then there's the challenge from U.S. Postal Service. According to December 1998 figures from Zona Research, the USPS has a 35 percent share of the on-line delivery market as compared to UPS's 55 percent share. Covering a dozen countries, the USPS's global package link service (GPL) targets U.S. catalog retailers, offering expedited delivery at rates well below the industry average. For example, GPL's price for a 10-pound San Francisco-to-London package is $26.63 compared to $41.10 average from commercial carriers, leaving UPS management fuming over "sweetheart customs deals" and cost of capital "advantages no private sector company can match." Big Brown bled $1.3 billion in its international operations, principally in Europe, before breaking even last year.

The once-lethargic postal agencies in France, Germany, the Netherlands, and the U.K. have been freed by the advent of privatization and the launch of the single market. A revived Deutsche Post is not only slashing prices on freight rates and packages shipped in Germany, but also has a 24 percent equity stake in DHL International. Before DP is privatized in 2003, CEO Klaus Zumwinkel intends to make its Big Yellow as ubiquitous as Big Brown inside Europe. UPS insists that its European operations are profitable, but concedes that this is due to its worldwide and pan-European traffic. It's dropped its freight business and is no longer focused on domestic package service in countries like Germany. In the EU overall, it is behind DHL Worldwide but ahead of U.S. rival FedEx. Conversely, in China, UPS has partnered with SinoTrans, a local carrier, in its expanding operations now reaching 21 cities in that country.

Like his predecessors, Kelly, 55, has brown blood in his veins. After a brief stint as an accountant, the Jersey City, NJ, native joined UPS in 1964 as a delivery driver, after earning a B.A. from Rutgers and serving in the U.S. Navy. A year later, he was promoted and moved up through various operations positions before becoming SVP of labor relations in 1988. In 1991, he

ined UPS's board and became EVP two ars later, assuming the CEO post in Jan- ry 1997. Over six feet tall, the physically posing Kelly is naturally gregarious, but ghly focused on "looking after [founder] n Casey's company." As he relates in the lowing interview in UPS's Atlanta head- arters, "the competition is blurring." It's o intensifying.

—*J.P. Donlon*

T DREAMS

a while UPS has been playing catch but now that you've made some gress, what new frontiers do you have break through? And to what degree is Net precipitating who you are and e you want to do?

ht now we're being rewarded with itional business as a result of things ve done over the past 10 years, both in technical area and other areas. And nology's continuing to push us. The ge is far more rapid now than even and 10 years ago. So how we position elves, make ourselves available to our omers, and embed ourselves in their nology solutions, is what will enable provide more information services for . The supply chain is really three gs—the movement of goods, informa- and finances. We move goods pretty , and we're doing a whole lot better in nformation area.

ie Net and electronic commerce in ral is causing us all to rethink the e business model, and certainly the ly chain as it relates to UPS. We've ioned ourselves well as leaders in e- nerce and certainly in our industry. hink our recently rolled out Document ange will provide opportunities.

the logistics business now account- e more than $1 billion of your sales, do you see as its growth potential?

xpect our worldwide logistics group a little more than $1 billion and pro- bout 40 percent growth for subse- years. We're looking for ways to or quadruple that part of our busi- within a three-year period. Demand is ious, and we expect it will increase d in the next five or six years.

does that growth rate compare to your core package delivery business?

Our Worldwide Express product is the product where we've had the most growth. We continue to have significant growth and improved share on our next-day business within the U.S. Our ground business growth is a smaller percentage, but is still a tremendously important part of our business, and our residential growth has been the most modest of the four.

Are you becoming by degrees a logistics or supply chain company?

We're becoming a logistics company because we have many customers who don't want to do certain things themselves any longer, customers who are saying, "I want to produce a product, and after that I want you to take care of it." So there are big, broad opportunities for a worldwide logistics group.

We heard firms saying they wanted to focus on their core business and to partner with other companies that can provide quality services in other areas early on. We had the infrastructure in place in the U.S. to respond perhaps quicker than anyone else. Now we're building a global presence. When you think of logistics, you think of warehouses and racks, but what our customers are asking us to do—everything from repairing computers to site selection—is much deeper in the supply chain. In some cases, they want us to do their billing and handle inventory cycle times.

You mentioned $1 trillion worth of inventory in the nation's warehouses—and a target of reducing that to half a billion.

That figure refers to the industry overall and not just UPS. Customers don't want to tie up goods. It's about getting it from the end of the product cycle to market as quickly as you can, with as little time as possible spent sitting in warehouses around the world. We can do that by both doing some of those things for them and eliminating in-between steps. We have one customer who has us coordinate when they ship things from three different parts of the world—say Malaysia, Toronto, Belgium—so that they all get to the same place at the same time and don't have to stop anywhere in between.

That suggests you're getting into creating systems that dovetail with your own.

We want to be where our customers want us to be. If ERP systems are their business systems, we want to be embedded in those, able to provide information for them and to use that information to provide additional value-added services. The customer decides whether that involves a mainframe-to-mainframe connection; being embedded in every ERP that exists; or supplying them with software and hardware. We decided that we wouldn't have a proprietary system that our customers would have to use. We believe that's one of the most significant reasons we've had some success in that area.

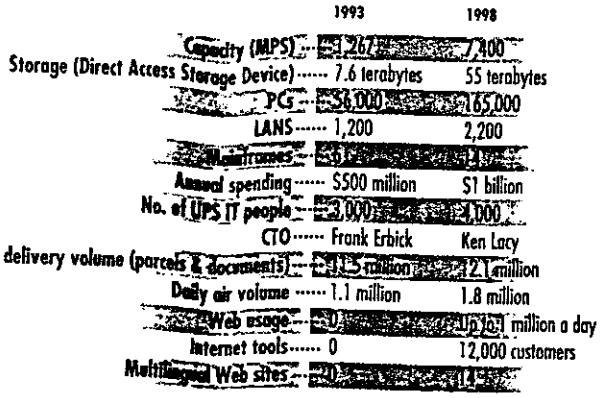
'We're looking for ways to triple or quadruple the logistics part of our business within three years.'

Ultimately, will you be competing with the SAPs and PeopleSofts in devising or helping to devise these systems?

The environment we're in right now is moving and changing so quickly that the competition is blurring. But I don't anticipate we'll compete directly with them. I anticipate our being more deeply involved and providing information solutions for our customers. We've partnered with more than 2,000 different companies doing some of those things.

Our worldwide logistics group has created software that's customized based on individual customer needs. That's part of the reason why developing those broad supply chain solutions for customers isn't done overnight. It's a six- or a nine-month process—sometimes a year.

Big Brown's IT Muscle


1993
1998
Capacity (MPS) 1,267 7,400
Storage (Direct Access Storage Device) 7.6 terabytes 55 terabytes
PCs 36,000 65,000
LANs 1,200 2,200
Mainframes 6 8
Annual spending $500 million $1 billion
No. of UPS IT people 2,000 4,000
CIO Frank Erbick Ken Lacy
Daily delivery volume (parcels & documents) 11.5 million 12 million
Daily air volume 1.1 million 1.8 million
Web usage 0 1,261 million a day
Internet tools 0 12,000 customers
Multilingual Web sites 20 41

Several European countries don't want encrypted data crossing their borders. Is the encryption technology in UPS's Document Exchange product before its time, outside of nations like the U.S., Canada, Japan, and Australia, which don't have restrictions?

Government regulation is a deep, complicated issue. Ultimately, it has to allow trade to exist in a free fashion, and I don't believe pockets of the world will prevent people from trading electronically, so encryption and security issues will be dealt with and become level at some point in time.

What challenges do you face with Document Exchange?

Historically we usually put products, such as next-day air or Worldwide Express, in place for the long term. With technology products, you must be ready to change them real quick, to adapt, adjust, and understand customer needs and be looking for the next way to meet them and to get documents from Point A to Point B.

Over the past five or six years, you've invested heavily in growing your international business. What lessons did you learn and what would you have done differently in retrospect?

In retrospect, we should have known that in serving 200 countries in addition to our domestic operations and those in Canada and Germany, it was going to take time to integrate systems and different product offerings and to hone those things and get the kind of efficiency and service reliability that we provide here in the U.S.

Putting those together took more time than we anticipated. In Europe, the primary challenge now is the postal service—which is similar to the challenge we face in the U.S. There's a tremendous amount of consolidation being driven by postal services, some of which are going to be privatized in the coming years. Very few of us understand what privatization means and how subsidies will exist from first-class mail to package delivery.

We don't object to competition as long as the playing field is level. In the last four months, the Deutsche Post has made seven or eight acquisitions, among them DHL, in different EU countries, including the U.K. and France. So they're aggressively growing. We have a few complaints before the EU right now on that issue. If they were privatized and didn't receive cross-subsidies from first-class mail or monopoly services, it would solve our concern. Unfortunately, the timeframe to resolve some of those things is beyond what's reasonable.

'The U.S. Postal Service can't have it both ways. You can't be a monopoly and then use that monopoly power to compete against mom-and-pop shops.'

It's like the U.S. Postal Service; you can't have it both ways. You can't be a monopoly and then use that monopoly power to compete against mom-and-pop shops, UPS, or FedEx. It has to be one or the other. If some EU countries don't want that, then they have to be disallowed from doing it through monopoly classes.

Certainly the long-term solution in the U.S. is more oversight by the postal rate commission. We support the universal delivery of first-class mail. We don't support them extending into any business they want, selling Walt Disney T-shirts or however they compete with the private sector with unfair advantages—that's what we're opposed to.

MAIL FRAUD?

How do you view the USPS's Priority Mail ads that compare their rates to yours and FedEx's and mention that UPS doesn't deliver Saturdays?

We've responded on that to both the Postal Service and Congress. The ads compare apples and oranges. Theirs is a two- to four-day product with no guarantee and no tracking ability.

What's the status of UPS's operations in China and Asia?

We're operating with a partner in China—SinoTrans—and have express service in more cities than any of our competitors in China. So we're satisfied with our growth there. In Asia, even with the depressed economic conditions, we've had 10-12 percent growth for this past year. We're focused primarily on to-and-from Asia from North America, Europe, and Latin America. We have less of an intra-Asian infrastructure than some of our competitors, so we didn't get hurt within Asia to the extent some other companies did.

What are your strongest growth areas?

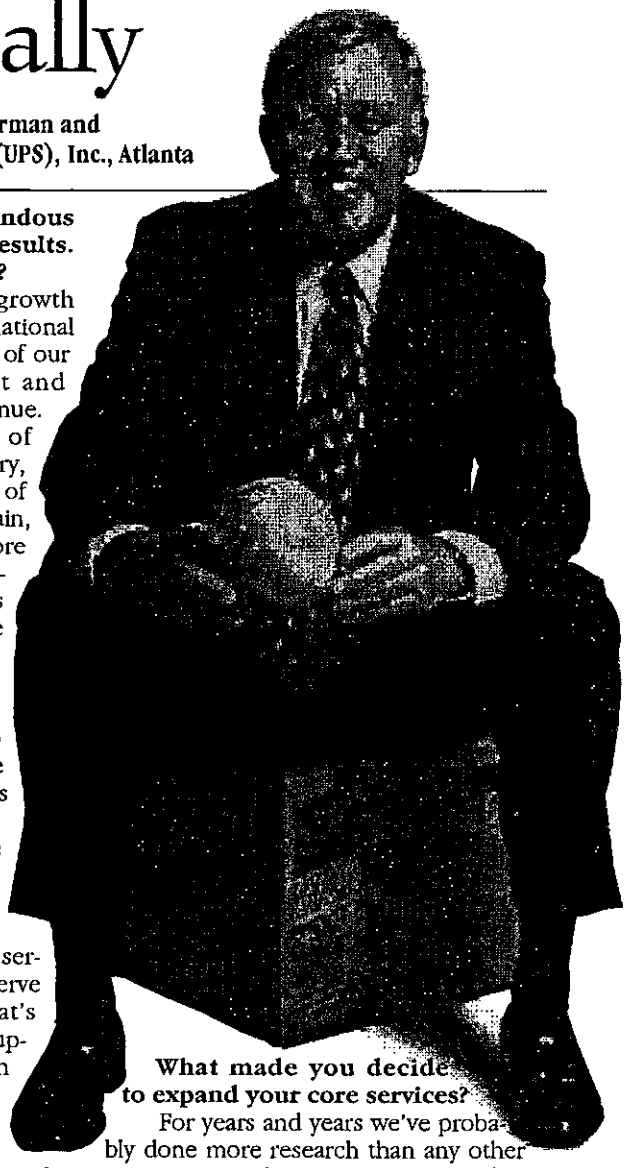
We expect good growth in our Worldwide Express delivery operation to and from 200 countries, and in the logistics group. E-commerce will provide us with opportunities beyond the current benefit we're deriving from being embedded in customers systems.

We still have double-digit growth in total air and next-day air products. Business-to-business is very important to us, and we're developing better models to reach the residential customer, which has the potential to grow as a result of e-commerce. Approximately $50 million of merchandise was purchased on the Web this Christmas season. If that's going to grow fivefold in the next two years and tenfold in the next four years, does it become significant when it's 2 or 3 percent?

There are questions about how quickly that will happen and precisely how it will happen. But it will happen. So we have to find better ways to move goods to residential customers. ❑

UPS: Now Delivering Information And Funds Electronically

An Interview with James P. Kelly, Chairman and Chief Executive Officer, United Parcel Service (UPS), Inc., Atlanta



EDITORS' NOTE

"We move goods in a big way, of course," Jim Kelly understates, "but we're simultaneously getting more involved in the movement of information and funds," and "that's a big differentiator for us." As the chairman and CEO of UPS elaborates, "We make a concerted effort to understand our customers' needs and to provide them with services that will help them, in turn, serve their own customers better." This explains why "we've been spending about $1 billion a year for the past 10 years on technology," as well as "why we're going deeper into the supply-chain and logistics business." Thus, with a number of e-initiatives off the ground and the core business "growing strongly," especially overseas, Kelly is justified in reporting, "The immediate future certainly looks good."

After earning a B.A. in business at Rutgers University, Kelly served in the U.S. Navy before joining UPS in 1964 as a driver. He was promoted to management the next year, and following a succession of advancements, he assumed his present posts in 1997. Also a member of the President's Export Council and chairman of the U.S.-ASEAN Business Council, he serves on the boards of Georgia-Pacific and BellSouth, as well as on the Carter Center's board of councilors.

COMPANY BRIEF

Headquartered in Atlanta, United Parcel Service (UPS) "is the world's number-one package delivery company, operating throughout the United States and in more than 200 countries and territories, and delivering some 13.6 million parcels daily. The corporation – 90 percent of which is owned by its founding families, retirees, and employees – has more than 360,000 employees. The remainder has been listed on the NYSE as UPS since 1999." Reported total revenues of $29.8 billion and net income of $2.9 billion in 2000.

UPS continues to show tremendous growth and strong financial results. Do you expect that to continue?

Yes, I do. We've had good growth across the board, with the international export products and logistics part of our business growing the quickest and strongest; we expect that to continue. We have the broadest portfolio of products of anyone in our industry, and we're following the strategy of delving deeper into the supply chain, to provide our customers with more value-added services. We're working hard to develop new solutions for them. In addition, our people are executing very well, so we're pretty comfortable with where we are right now. We must give some thought to where we're going to be in three to five years, but the immediate future certainly looks good.

How do you differentiate UPS from the competition?

We make a concerted effort to understand our customers' needs and to provide them with services that will help them, in turn, serve their own customers better. That's why we're going deeper into the supply-chain and logistics business with UPS Capital Corp., the UPS Logistics Group, and a number of electronic initiatives. We move goods in a big way, of course, but we're simultaneously getting more involved in the movement of information and funds. That's a big differentiator for us. And we spent a number of years putting in what we believe is the strongest integrated network worldwide, to handle all of these products within a single system. We think that gives us a very strong competitive advantage as well.

Yet another of our real advantages is our worldwide team of drivers, who make personal contact with a million and a half shipping customers and six or seven million receiving customers on a daily basis. They represent a real competitive edge.

What made you decide to expand your core services?

For years and years we've probably done more research than any other company in the transportation field. We've conducted thousands of focus groups, and we maintain an ongoing dialogue with our customers via telephone-based surveys to determine their needs, likes, and dislikes. At the same time, we became convinced that information technology could make our core services even more valuable – that it was becoming increasingly important for our customers to be able to track their packages throughout the transportation cycle.

The application of that technology to our core business of moving goods brings tremendous synergy. It makes possible such things as coordinating shipments

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from multiple locations to arrive at a single address at the same moment. And it also set the stage for us to enable e-commerce. By talking to customers, applying technology, and working closely with great partners like IBM, PeopleSoft, and Oracle, we can do such things as embed UPS shipping functions directly on our customers' Web sites, improving efficiency, saving money, and allowing them to provide better service to their customers. And now, of course, we can even handle e-commerce product returns in a simple, more straightforward fashion.

Do you see stronger growth opportunities for UPS in international markets than in the U.S. market?

Yes, we do; overseas is where we see the most opportunities going forward. Four or five years ago in Europe, for example, we introduced a portfolio of products that includes the kind of express services we take for granted here, in the United States. Those services didn't really exist in Europe before. And with the borders having come down and the ease of conducting commerce among countries, introducing that portfolio worked out very well for us. Now we're focusing not only on Europe, but also on Asia and Latin America.

One more trend we're encountering is that, as our existing customers expand overseas and open operations in maybe Beijing or São Paulo, they expect us to be there ahead of them. Those kinds of opportunities exist for us all over the world. So, our international business is growing strongly. Today, it represents about 13 to 14 percent of our total business, and in 5 to 7 years, we think it will represent 20 percent of our total business.

Do you own facilities overseas or form partnerships?

We have different kinds of relationships. We're in over 200 hundred countries and territories around the world. In some places we have our own UPS operations; in other places we've formed joint ventures. For example, because a U.S. company in our sector can't own a business in China, we have a partner there, Sinotrans. That relationship has worked very well for us, even thought it's not a wholly owned UPS subsidiary.

Some of our joint-venture relationships around the world are based on local economic conditions, others are based on laws, but usually our side of the operation drives the business.

What are some of the key technological advances UPS has made in recent years, and how have they changed the way you do business?

I can't think of anything about UPS that hasn't changed in recent times as a result of new technology. We've been spending about $1 billion a year for the past 10 years on technology because we realize we have to be the leader in our sector.

When we talk about value-added services, we're usually talking about information services – providing what we call "package-level detail." Our upfront information tells the customer exactly where a package is at any given time in any part of the world and can confirm a delivery almost instantly. Our customers can then use this information to begin billing their own customers because they have proof of delivery. And the information also helps them to more efficiently manage their inventories.

Of course, we've also improved productivity by automating certain parts of our business. For instance, we used to handle in excess of 500,000 telephone calls a day, each of which ended up costing us $1.50, $2, or more. Today, 80 percent of those requests are now handled over the Internet. This has drastically reduced costs at our call center while concurrently improving our service. Plus, it has freed up resources so that we can offer additional call-center services to our customers.

We've always focused on the long term, and we'll continue to do that.

Once we began to realize the power of technology in our own business, we passed it on to our customers so they could enjoy the same benefits. Now, we're helping those companies realize like savings, and we're reducing their incoming calls on order status by 40 to 50 percent. Now, they're able to realize the same benefits UPS has realized: cutting costs and freeing up call centers to be proactive revenue centers, while providing better customer service in the mix. So, while technology has changed our internal operations, the real impact has been in what it has enabled us to do for our customers.

Has the financial community done an effective job of understanding these kinds of opportunities?

Yes, I believe that the analysts have worked very hard to recognize these kinds of opportunities, even though, I think, they're the most difficult part of our business for them to understand. We've been a public company for only a short time, and obviously, analysts' initial perception of UPS is as a package-delivery and transportation company. We've tried to describe how we're able to provide these additional types of services to our customers and how we see the corporation evolving. Investors are also beginning to understand us better.

Since going public in late 1999, has it been difficult for you to balance the need for long-term investments with the market's focus on short-term earnings?

It hasn't been difficult at all. As a matter of fact, it has been easier than I anticipated because we've had a great deal of success with the products we've been offering, and because customers are rewarding us with more business.

We've told the senior folks on our management committee that it's not their job to think about the third quarter, this year, or next year. Their job is to think about three, five, and 10 years from now – about what our customers are going to need and how we should position ourselves for the future. So while we understand that our shareholders need to feel secure today about their investments, we believe we can reassure them through communications and by achieving results. We've always focused on the long term, and we'll continue to do that.

UPS has historically been very involved in community service. How do you define the company's responsibility to the community?

We do business in virtually every community in this country, and we're now doing business in more and more communities around the world. We recognize that we have an obligation to give something back to those communities we serve. We have well over 350,000 employees, many of whom want to do additional things for their communities, and many who are already doing great things. So, one thing the UPS Foundation is focusing on right now is "volunteerism." Some not-for-profit groups don't do a very good job of utilizing volunteers. We, on the other hand, are exploring how to hook up community needs in a more efficient fashion with the willingness of our people to donate their time, energy, and resources. For instance, district managers might volunteer to leave their accustomed environments and relocate for a period of, say, five to six weeks to the South Side of Chicago or hills of Tennessee, to work with local charities and help unemployed people find jobs.

Each district has its own program. Something we don't publicize is that we encourage our district managers to go out and visit those charities we've already decided to donate money to. Nine times out of 10, once the manager pays a visit and his people learn more about the charity, they get involved too.

You can sit in a conference room and hear about what's going on in the various communities, but once you witness what's happening, it causes you to want to do more. And it's not only beneficial to our communities when we give something back. It's also positive for our own people to feel good about what they do. ●

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[The Atlanta Journal-Constitution: 8.17.2001]

Kelly made 'plain' company a leader

By DAVE HIRSCHMAN
Atlanta Journal-Constitution Staff Writer

Related story
▸ Mike Eskew to lead UPS

After leading UPS through a $5.5 billion stock offering, a technology revolution and a costly strike, UPS Chairman and Chief Executive Jim Kelly said Thursday he will retire from the world's largest transportation firm at the end of the year.

Alan Mothner / AP
Jim Kelly, chairman and chief executive of UPS, rose to the top 32 years after joining the company as a delivery driver.

Mike Eskew, 52, vice chairman, was named his successor.

Kelly joined UPS in 1964 as a delivery driver in New Jersey and was named to the top post in 1996.

"Jim Kelly will be remembered as the person who changed the image of UPS from a plain, brown-box company to a technology leader with a broad portfolio of services," said Satish Jindel, a transportation consultant. "The company also operated very efficiently under his leadership with higher margins than ever before in its history."

UPS revenue grew to $30 billion last year from $22 billion when Kelly was appointed CEO, and net income nearly tripled to $2.9 billion from $1.1 billion during the

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same period.

Kelly, 58, was unavailable Thursday and made no statement about his retirement plans. "Oz" Nelson, the only other UPS chairman to retire since the company moved its headquarters to metro Atlanta a decade ago, lives in Sandy Springs and participates in civic matters.

Kelly is also very active in Atlanta community and business affairs. He helped United Way of Metropolitan Atlanta take in $82.5 million in 2000 as chairman of its fund-raising drive. He also serves on the board of Atlanta-based Georgia-Pacific.

"UPS is very lucky to have a person with Mike Eskew's knowledge, experience and respect ready to assume the leadership of our company," Kelly said in a written statement. "We have a very strong senior management team that will work with Mike to continue to move UPS forward."

Art Hatfield, transportation analyst at Morgan Keegan & Co., said the 94-year-old company's strategy and style won't change as a result of Kelly's departure. UPS is guided by a 15-member management committee of company veterans who value consensus and detailed analysis.

"No one is indispensable at UPS, and Jim Kelly would be the first to say that," Hatfield said. "It's something the company is proud of and something the company works hard to maintain."

Ken Sternad, a UPS spokesman, gives Kelly credit for unifying the 360,000-employee firm, the world's largest transportation company, behind a set of common goals after the 1997 strike.

"He's the one that got us to put down on paper exactly who we are, where we're going, and how we're going to get there," Sternad said. "It crystallized the transformation of our entire organization."

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CHAPTER 10

2003

{ *Everywhere, U.S.A.* }

UPS

Diversity and Cohesion

In the mid-1960s, the United Parcel Service was overwhelmingly an organization of white males, many of them Irish Catholic, many with a background in the military. Aspects of the company parallel military behaviors and values: not only the brown uniforms worn by all UPS drivers, but careful training in standard operating procedures and a culture of teamwork and loyalty. (Loyalty has been such a fundamental UPS value that, for many years, no one who left the company for any reason would ever be hired back. Even a student sorting packages part-time at night to finance a college education was disqualified from future employment if he gave up that job.) As in the military, people who succeeded at UPS rose through the ranks, proving themselves as package handlers or drivers before they moved into management positions. Leaders of the company were UPS lifers, with twenty or thirty or more years of experience in the organization behind them, usually acquired in various jobs at numerous facilities around the country. Though geographically dispersed, the managers of the firm were remarkably homogeneous and close-knit, with extensive networks of acquaintances among people who had worked together in the course of careers that spanned more than a quarter of a century.

In the summer of 1965, the Watts neighborhood of Los Angeles erupted in riots and Title VII of the Civil Rights Act, prohibiting employment discrimination based on race, color, national origin, religion, or sex, went into effect. Walter Hooke believes UPS hired him as East Region personnel manager at about that time specifically to help the company address the requirements of Title VII and the challenges of social turmoil in the 1960s. The assassination of Martin Luther King, Jr., on April 4, 1968, would spark riots in cities across the country. The black power and antiwar movements, hippies, the sexual revolution, and the drug subculture attested to a divided populace contending over values, justice, politics, and different ideas of what being an American meant, or should mean.

It is easy to imagine UPS responding to that stew of unrest and apparent instability—so unlike its own culture—by trying to turn inward, protecting itself by taking even greater care to hire only "people like us," resisting legal and social pressures to change. Instead, along with other diversity efforts it made, the company accepted Hooke's plan to launch a community internship program that would put managers in social service programs in America's turbulent cities for six months at a time. Hooke convinced company leaders that the only way to understand people who, they believed, would be future employees and future customers was to engage them and their problems.[1] He pointed out that UPS package cars (as the chocolate-brown delivery trucks are called internally) had not run in Cleveland, Los Angeles, Baltimore, and Washington during riots there: what had happened in the cities directly affected the company's ability to do its work. Ignoring people and problems was bad for business, he argued.

UPS has been and remains a no-nonsense, results-oriented company, with a fervent emphasis on efficiency and focused hard work. At the same time, it maintains a practice of service to the community that goes back to cofounder James E. Casey, who set up the Annie E. Casey Foundation, one of several public services established by his family and the company. For many years now, a highlight of the annual senior managers' meeting has been the presentation of the Jim Casey Community Service Award to the UPS worker—as often as not a part-time package handler—who has made the greatest volunteer contribution to the

community. So a combination of practical and ethical considerations supported the internship idea. The first internships were set up in Philadelphia and at the Henry Street Settlement in New York City.

More than thirty years later, the program is still in operation. Program sites have included Pittsburgh; Oakland, California; and Montgomery, Alabama. Today, selected UPS managers take part in community internship programs in Chicago; New York; Chattanooga, Tennessee; and McAllen, Texas. They live and do community-work in those places for four weeks, not six months, but the aim is the same: to learn about the lives of potential UPS employees and customers by being there, listening to people speak for themselves, and working with the programs and agencies that support them, and, in the process, to become aware of life issues that probably affect some of the people they currently supervise. Although the "alumni" of this program constitute only a fraction of all UPS managers, many of them (such as Lea N. Soupata, senior vice president for human resources and a member of the UPS board of directors) now hold key corporate positions. The fact that busy, up-and-coming managers are often assigned to the program indicates the importance of equal opportunity and cross-cultural understanding within the firm. Through their internship work these managers contribute to the communities, but the main target of the program is the managers themselves; its central purpose is to give them experience and understanding that will make them better managers in a diverse company.

If America's social-capital deficit is to be addressed, it is hard to imagine how that can be done without carefully considering the links between the workplace and community. At the beginning of the twenty-first century more Americans are working outside the home than ever before. Some evidence suggests that they are spending longer there, as well, although experts disagree about the trends in work hours.[2] The issue of social capital and work has two facets:

- Work can affect social capital *outside* the workplace (as, for example, in corporate-sponsored volunteering or workplace flexibility that enables employees to reconcile their professional obligations with their family and community obligations).
- Work can affect social capital *inside* the workplace (as, for example, in the ways office architecture or supervisory practices affect relations among coworkers).

The UPS community internships illustrate the former, but UPS is hardly the only company in America to provide opportunities for community service. UPS is, in fact, an even more interesting story because of the role of social capital within the workplace itself.

We picked UPS, not Ben & Jerry's, because it is a very large, profitable firm in a highly competitive global industry. UPS does not represent "boutique capitalism," and it is not a cushy place to work. Although we have not done a scientific survey, we believe that UPS has pursued a more social capital–intensive strategy than many comparable firms. UPS management has followed this strategy not out of altruism, but because of a hard-nosed business calculation that it is a good way to make a profit, just as HUCTW builds community as a good way to organize a union and Saddleback builds community as a good way to save souls.

Diversity and Cohesion

UPS in 2002 looks very different from the all-male, all-white company it was in the 1960s. African Americans, Hispanics, Asian-Pacific Americans, and other minorities now account for more than one third of the firm's employees. Minorities hold 27 percent of managerial positions. Women are 21 percent of the UPS workforce in the United States. Women constitute 27 percent of management and 25 percent of supervisory personnel. In 2002, UPS ranked twenty-fifth among *Fortune* magazine's "50 Best Companies for Minorities," the fourth consecutive year it appeared on the list. DiversityInc.com ranked UPS third in its list of top ten companies for diversity in 2001.

UPS's culture of hard work, cooperation, connection, and loyalty

remains surprisingly similar to what it was thirty years ago, despite changes in the wider culture, expansion to new business and therefore employees with new skills—IT (information technology) professionals and air freight pilots, for instance—and increasing diversity. But our discussion of the company's cohesive culture and, we believe, relatively high level of organizational social capital needs to be placed in a cautionary context.

First, no dispersed organization of nearly four hundred thousand people can be all one thing. The experience of individuals and groups will necessarily vary. At UPS as elsewhere, there are good managers and bad, people who like their jobs and people who do not. It would be easier to write about social capital at any one of a number of small, "friendly" companies, but UPS is interesting precisely because it is a large firm in a highly competitive industry that has survived and maintained its strong culture for almost a hundred years.

The social-capital landscape at UPS is further complicated by the fact that the company includes three fairly distinct groups of workers. UPS depends on a large number of unionized part-time workers to sort and load packages in its many hubs and centers. UPS drivers also are unionized—and we will say more about the Teamsters and UPS later. Although many current managers have been drivers or package handlers, they have moved into work that is different from what their unionized fellow employees do. The turnover rate among managers is less than 2 percent; among part-time package handlers it is as high as 50 percent or more, depending on location. Pay for part-time work at UPS is no longer dramatically higher than for almost any other part-time employment, as it once was, although part-timers do get fully paid health care and pensions—rare benefits in part-time work.

It is possible to ask, though, whether UPS is one company or two—or even three. To an unexpected degree, it seems to be one company and one (complex) culture. To begin with, the work brings package handlers, drivers, and managers together. UPS's core work of sorting and delivering packages is grueling, more demanding physically than an outsider can imagine. Completing those tasks is a daily challenge that can be met only when people cooperate. Always fighting the clock, sometimes fighting the weather, UPSers share the daily drama of getting a tough job done. Even drivers, who spend most of their time on the road alone, depend on the package handlers who load their vehicles: a poorly loaded package car makes their work impossible.

Tales of cooperation are part of the company's folklore. The Christmas holidays provide prime examples of workers banding together to sort and load impossible volumes of packages, including instances of senior managers helping out at the conveyor belts when there was no other way to get the job done. Drivers describe making their deliveries when bad weather kept FedEx and Airborne Express off the roads. Experienced drivers vividly recall their first days on the job, when the workload seemed not just difficult but nearly impossible. Ken Black, who has been driving a package car in the Greensboro, North Carolina, area for more than two decades, says that the best advice he got from veterans when he started was "Don't quit at the end of the day, wait until the next morning." They knew he would be tempted to give up, as they had been. Even with that advice, Black says, his first day of making solo deliveries, a Friday, was almost his last: "I got lost; at nine-thirty at night I was still trying to deliver packages. I got back to the center so late, there was nobody there to tell I was quitting." Over the weekend, Black recovered and drove the route on his own. Monday went a little better, and twenty-two years later he is still at it.

The very difficulty of the work draws people together. Being able to "hack it," showing the strength and persistence the work demands day after day, defines what it means to be "a real UPSer." Displaying those qualities generally trumps ethnicity or background when it comes to gaining acceptance or respect.

The focus on difficult work and the clarity about what it requires have helped this widely dispersed global company of 370,000 maintain its culture and sense of cohesion over decades of growth and change. There are other sources of unity, some of them visible and symbolic. Like any uni-

form, the brown uniform worn by every driver represents membership in a collective enterprise, commonality over individuality. The shared, explicit standards and practices that define many jobs at UPS also contribute to unity. All drivers go through the same extensive training to learn the "340 methods"—detailed standard techniques designed to ensure safe, prompt deliveries.

A number of less tangible factors contribute to the connectedness and coherence of the UPS culture—to its social capital. Many of them are the same as the important sources of social connection in other organizations we have looked at that, in most ways, seem very different from this one: Valley Interfaith and HUCTW are two examples. Like them, UPS is rich in conversation and storytelling. Like them, it devotes much effort to finding and developing leadership ability in its members. To a remarkable extent in a company characterized by standard practices, it allows and encourages decision making at all levels. As Valley Interfaith and HUCTW exemplify relational organization, UPS exemplifies relational work. As Ernie Cortés says, "The answer is relationships."

For a large, global company that values efficiency almost to the point of obsession, UPS is surprisingly hospitable to face-to-face conversation. Every morning, in every UPS hub and center, drivers gather for a brief prework communication meeting, or PCM, before they go out on the road. Every day, all around the country, drivers meet at lunchtime in parks and parking lots to talk, mixing social conversation with work: veterans help newcomers find obscure addresses or solve other problems; the drivers exchange missorted packages or balance their remaining loads to make sure everything gets delivered on time.[3] Hub and center managers are out on the floor, talking with the people they supervise. (Managers who hide in their offices are noted and criticized.) District and regional managers spend much of their time traveling to work sites in their areas of responsibility. Being there, shaking people's hands, asking them about their work, and talking directly to them about company policies and expectations is the norm. Paul Funari says that he brings together the staffs he manages in Maryland and Atlanta every month so that they can have ongoing direct contact. One senior manager remarks, "We are not a memo kind of company," and former CEO Jim Kelly says, "I don't even know the phone numbers of the people on our management committee because I never pick up the phone if they're in the office. We just walk into each other's offices when we need to talk."[4]

Like other large companies, UPS uses e-mail to distribute data and information, and it tracks package movements electronically, but, unlike many firms, it does not see electronic (or even phone) communication as a substitute for face-to-face contact. It does not go in for virtual teams, which many organizations have embraced in the name of speed and economy. (Funari's monthly meetings would be considered an unnecessary expense in many large companies today. Those companies would opt for conference calls instead.) But building and maintaining the trusting relationships on which the company depends require more direct connection.

A lot of the conversation takes the form of storytelling. Some of the stories are formalized. At Jim Casey Night at the annual senior managers' meeting, current leaders recall and discuss aspects of the founder's work and the values inherent in them. Veteran drivers recount tales of their early difficulties to encourage newcomers and to communicate some of the tricks of the trade. They also recall the veterans who shared stories with them when they were new: the tales, for instance, of winter deliveries in rural Wisconsin that include tips for preventing ice from forming on the steering wheel and how you are likely to find your farmer-customers at different places, depending on the weather. Longtime managers tell stories of their own experiences as package handlers or drivers twenty or more years earlier. It is a way of creating a connection with people currently doing the work by building credibility: managers demonstrate that they know what the job is like.

Valley Interfaith and HUCTW build strong relationships in part by putting decision making in the hands of members and by developing leaders from among their memberships. In addition to believing that members know the most about their own needs and problems, the pro-

fessional organizers recognize the role genuine participation and shared power play in relationships of trust; just giving marching orders to people is unlikely to create commitment and connection.

UPS seems an unlikely environment for encouraging employee decision making. The company's unambiguous aims and its standard practices seem to leave little room for autonomy or even choice. The "340 methods," for instance, spell out drivers' actions in extraordinary detail, even instructing them to insert the key in the ignition with the right hand while fastening the seat belt with the left to save a second or two of time. But on larger issues and within the framework of these standard techniques, the drivers decide how best to get their work done. So when a major customer in the Boston area requests an earlier pickup and delivery time, the center manager asks the driver how he thinks he might provide the requested service and still serve his other customers. Similarly, part-time package sorters decide when they should leave their posts to help a coworker who is falling behind; they do not need management permission. In a way, having clear norms and goals frees up people at all levels to make decisions consistent with accomplishing their tasks. A driver comments, "I'm not going to call my supervisor to ask if I should go back to pick up a package later in the day. I already know what he'll say."

UPS is no democracy, but trusting the people who do the work to make the decisions necessary to get it done has been part of the company's culture for a long time. In 1956, long before business thinkers began talking about empowerment and distributed decision making, then-CEO George D. Smith said:

> It should be noted that it is considered desirable to have authority for decisions and actions as far down the line as possible. This is decentralization of authority in contrast to autocratic, centralized big-boss control. In this way, decisions should be more in keeping with the needs of the job, which have a better chance of being known where and when the needs occur.[5]

Leadership development—providing opportunities for people to advance within the company—is a key goal. Like Valley Interfaith organizers, who continually seek new leadership talent, UPS managers are on the lookout for the hourly workers who get the respect and attention of their peers and may make good future managers. Promotion from within remains the norm. The overwhelming majority of the senior managers who attend the annual management meeting have been with UPS more than twenty years. The annual Employee Relations Index survey, taken voluntarily by more than 85 percent of employees, focuses on questions of opportunity and recognition: Is good work recognized? Are managers open to new ideas? Are opportunities for advancement available? Managers are required to address problems indicated by survey responses immediately.

In recent years, business journals have announced that loyalty is dead, that each employee should think of himself as a "company of one," developing critical skills that will allow him to jump from organization to organization whenever a better offer comes along or when he loses his job. The widespread firing of employees that many organizations consider the first step to lower costs and increase profits—the dreaded downsizing—lends some credence to the death-of-loyalty idea. Although UPS has temporarily laid off workers when its volume of work dipped, it has always hired them back, often within days, usually within weeks. It fires employees only if it judges that they are not performing adequately, never for the purpose of shrinking the workforce or (as is the case with some organizations that practice "rank and yank") firing the lowest-rated 10 percent of workers every year, using fear to keep employees up to snuff. UPS recognizes the mutuality of loyalty—you have to give it to get it—and eschews the downsizing and devil-take-the-hindmost firing policies that damage connection, disrupting networks of relationships. The expectation that employees (with the exception of most part-time package handlers) will make UPS their lifetime career and that their commitment to the company will be rewarded by the company's commitment to them is the foundation of the organization's social capital.

UPS, the Teamsters Union, and the "Occupational Community"

Three features of employment practices at UPS have had a profound effect on patterns of social capital within the firm. First, Jim Casey invited unionization by the International Brotherhood of Teamsters very early in the firm's history. We'll explore the implications of that fact shortly.

Second, as we noted earlier, UPS has what labor economists term a strong "internal labor market." That is, jobs (including the top jobs) are filled mostly from within. This type of personnel policy typically leads to low turnover and high worker loyalty, and that appears to be true of full-time employees at UPS. It is the opposite of the disposable-employee philosophy that became popular in some American businesses in the 1980s and 1990s. Unlike its major competitors', UPS's wages are relatively high (not unrelated to the fact that the firm is unionized). All these conditions have produced what is sometimes termed an "occupational community," that is, relatively dense and cooperative connections among the employees. Although this sort of workplace was once common in American industry, it is now much rarer, at least among blue-collar workers.

Linda Kaboolian, a labor relations expert who has followed UPS and the Teamsters for many years, reports of UPS that "employee groups and union locals are very active in civic life—there is a real occupational community among UPS workers. Historically, there has been more union democracy and less corruption in UPS locals than in other parts of the Teamsters. I attribute these virtues to the existence of the occupational community."[6]

Third, nearly half of the UPS workforce is part-timers, and they are not nearly as integrated into the occupational community as full-timers. The part-timers bear the brunt of the seasonal nature of this work for the full-time employees, who aren't laid off during slack times. Turnover among part-timers is much higher, and their loyalty to the firm is probably lower. Even though internal surveys of workers suggest that UPS has engendered more worker loyalty than most other major employers of similarly skilled workers in America today, the distribution of opinion tends to be bimodal, with a significant number of discontented employees. We don't know for sure that those discontented people are disproportionately part-timers, but that seems likely. There are, to be sure, important exceptions to this general picture, since some part-timers are quite happy with their positions and some full-timers are disenchanted. In general, however, UPS seems to represent a dual-labor-market firm, with social capital much higher among the full-time "lifers." While some UPS policies do foster social capital, not everything that UPS management does contributes to social capital. Some of its policies (like this dual labor market of part-timers and full-timers) have the effect of undermining the occupational community in certain respects.

Discussion of loyalty and cooperation among employees of UPS inevitably raises the question of the 1997 Teamsters strike. Drivers and package handlers struck in part to demand that UPS convert more part-time jobs to full time. The fifteen-day strike cost the company $750 million in lost business, and it deeply troubled managers.[7] It was the first nationwide Teamsters strike against UPS in eighty years of unionized labor at the company. Chief of human resources Lea Soupata has described it as an "aberration" in the relationship between the company and its unionized employees.[8]

That is true in one sense, given the long history of agreements arrived at without walkouts—a very different history from that of, say, the West Coast docks, where strikes have been a regular and bitter part of the relationship between management and labor. But the proportion of part-time jobs and the compensation for those jobs are real issues. Kaboolian suggests that a strong union can help enforce a "moral economy" through its collective bargaining for wages and benefits, and its mechanisms to resolve disputes over discipline and job assignments. In effect, the union provides a counterweight to the intense competitive pressures that would otherwise tend to keep wages low.

In the summer of 2002, UPS and the Teamsters agreed on a new con-

tract more than two weeks before the contract that had ended the 1997 strike expired. The new, six-year contract also addressed the issue of part-time work, including an agreement to convert ten thousand part-time jobs to full time and to raise the wages of part-time employees six dollars an hour over the life of the contract, an increase that is a dollar higher than that for full-time workers.[9] Having experienced one costly strike, UPS undoubtedly wanted to avoid a similar disruption of its business, but the successful negotiations this time also reflected a desire to improve and maintain relationships with hourly workers and probably a recognition that significantly higher wages for part-time workers must be part of effectively addressing the issue of high turnover.

Employee-Run Committees

Many of these issues—the struggle to develop a stable and satisfied part-time workforce and the sources of social cohesion we have discussed (conversation, distributed decision making, leadership development)—come together in the employee-led committees on health and safety and employee retention. Tested first in a pilot program in Maine in 1997, a "Comprehensive Health and Safety Process" has put the core of the company's health and safety efforts into the hands of the employees. Safety committees before that time were management driven and not nearly as effective as the new process is proving to be. The new process establishes committees cochaired by an hourly worker, who devotes all of his or her work time to health and safety issues, and a manager. Cochaired employee retention committees are similarly structured. The committees at the UPS hub in Greensboro, North Carolina, one of the largest in the United States, have been especially successful.

The Greensboro hub is a large, low brick building surrounded by acres of asphalt where several dozen gray tractor-trailers with "United Parcel Service" printed on the side are parked. The building's wide doors and rows of loading docks suggest its function as a sorting and distribution center for some of the thirteen million packages and documents UPS delivers daily. Inside are chutes and conveyor belts, trains of wagons hitched to motorized carts for hauling heavy or irregular packages, and broad expanses of open floor where the familiar brown package cars will line up to be loaded and unloaded.

Because Greensboro is a hub, the tractor-trailers ("feeders," in company parlance) bring packages here for sorting and loading onto other feeders, which carry them to smaller UPS centers, where they will be transferred to the package cars and delivered to customers. (Packages with Greensboro-area addresses are loaded on package cars here for local delivery. By 8:30 A.M., the package cars are ready to go, about twenty of them lined up inches apart, backed against the conveyor belt that carries the packages to the vehicles.)

The hub also handles outgoing traffic: the packages drivers pick up as they make their deliveries are unloaded and sorted when they return at the end of the day and loaded on feeders for distribution to other parts of the country. Every day more than four hundred thousand items enter and leave the Greensboro hub, millions of pounds of computers, car parts, mail-order clothing, documents, sports equipment, and the myriad other items that people and companies ship one another via UPS.

Sorting, loading, and delivering all that merchandise is demanding and potentially dangerous work. Five shifts of part-time workers sort and load packages here, four hours per shift. Some members of the "preload" crew, which loads package cars in the early morning hours, wear T-shirts that say, "It's not just work, it's a workout" or "Body by UPS." Their job demands physical strength and endurance and a fair measure of experience and judgment to keep up with the flow of packages, organize the package car loads to make drivers' work easier, and deal with the hazards of the job: especially heavy packages, items with sharp edges, moving conveyor belts, occasional leaks of hazardous materials from their shipping containers.

The drivers' work is demanding and potentially dangerous, too. Drivers face the possibility of accidents on the road, as well as strains and bruises from carrying packages. Greensboro drivers have their own health and safety committee.

The cochaired health-and-safety committees and the similarly struc-

tured cochaired employee-retention committees embody two basic convictions: that the people who understand the work best are the ones who do it, and that people usually respond best to help and advice from their peers. As Kisha Boyd, hourly cochair of the noonday shift employee-retention committee, says, "Management are on the outside looking in. We're on the inside." Even though many managers have risen through the ranks and once did similar work, they have been away from it too long to be sufficiently credible as peers, as much as that past experience may create at least a small patch of common ground. At committee meetings, typically held every two weeks, the management cochair acts as a resource who can take responsibility for issues that require some sort of management approval or intervention. The hourly-worker cochair runs the meeting, and most other committee members are hourly workers.

At an employee-retention committee meeting for the twilight shift in July 2002, hourly-worker cochair Katie Harris runs through a brief list of issues. She notes that not all full-time supervisors have been talking to new hires at least once a day, as they are required to do. Kevin Hunter, the management cochair, says he will talk to the supervisors and make sure they comply. Harris reminds hourly-worker committee members of their responsibility to introduce themselves to every new worker. "Unload with them when you talk to them," she says, "so they won't be backed up." She reports on the reasons for recent turnovers: one person who left had gotten a full-time job elsewhere; another had never consistently shown up for work, and efforts to reach him have failed.

Each committee member talks about a new hire he or she has responsibility for, describing how well the person is handling the work and noting any apparent problems and how the committee members might help. During the open discussion at the end of the carefully organized meeting, the committee discusses why one group has managed to retain all of its people so far this year. A member who knows the group especially well says, "Their supervisor is a real people person. And they're a good team; they help each other. When someone falls behind, the hourly beside him will flow down to help. It's a home away from home for a lot of them."

A meeting of the noonday-shift retention committee the next day follows a similar pattern. A report that one worker has lost his usual ride to work leads to a decision to approach others who live in the same area to see if one of them can provide transportation. Hourly-worker cochair Kisha Boyd reminds committee members to introduce new hires to "the whole belt"—all of the people working together in one area. She herself works alongside each new hire for an hour. Employee cochairs of health-and-safety or employee-retention committees do not entirely give up the physical labor of sorting and loading. Sometimes they will climb on the back of a package car to demonstrate a safer way of working or will work alongside an employee while they talk. In addition to keeping the work flowing, sharing the job demonstrates more powerfully than any words that they are peers who genuinely understand what they are talking about.

Alphonso Becote, the hourly-worker cochair of the noonday health-and-safety committee, attends the retention meeting. Health-and-safety and employee-retention cochairs regularly attend each other's meetings, in part because the two issues are so closely related. Inexperienced workers are more likely to be injured than experienced ones. At the Greensboro hub, 60 percent of injuries occur among employees who have less than six months of experience.[10]

Becote has been a part-time worker at Greensboro for more than eight years. The day before, he had gone to the hospital with a man who suffered an asthma attack during the noonday shift. He reports to the group on the man's progress. Becote spends most of his time on the hub floor, looking for safety problems and talking to workers, praising them for safe work as well as pointing out errors and demonstrating the right procedure himself. He encourages workers to watch out for one another's safety so that, for instance, when one tries to pick up a hundred-pound package, a coworker will remind him to ask for help. Becote also works on analyses to determine the causes of accidents, though as of the summer of 2002 his shift had gone the whole year without a single injury serious enough to result in lost work time.

Becote sees himself as a bridge between hourly workers and manage-

ment. He emphasizes the importance of putting safety in the hands of the people who do the work. Even standard advice about how to lift packages or wearing proper footwear gains credibility by coming from people who are in the trenches with you. And some issues evident to the package handlers themselves are invisible to outsiders. For instance, only experience can show how tiring it is to stand on a metal grate for four hours while sorting packages and how fatigue makes errors and accidents more likely. The hourly cochairs pushed for a change because they understood a problem that hub designers did not anticipate. They came up with a cheap, effective solution: to use worn rubber conveyor belts as floor padding, rather than throw them away. Similarly, drivers' health-and-safety committee members understood exactly where in their vehicles they were most likely to slip and where strips of nonskid material would do the most good. The way these committees work expresses the same values and beliefs that motivate the community internships: that you have to be there doing the work yourself to understand it; that you can help people effectively only when you build a relationship with them.

Statistically, these worker-run committees have proven their value in Greensboro. Accident rates there have dropped year by year from eighty-one accidents per 200,000 work hours in 1996, just before the cochaired committees formed, to six per 200,000 hours in 2002. Several shifts had no accidents at all in 2002: this despite the potential hazards of the work and the fact that reportable accidents include sprains and cuts, not just accidents that require hospitalization or other serious medical attention.

Retention rates among part-time workers have improved, too, from turnover of almost 50 percent in 2001 to less than 30 percent through June of 2002, though it is hard to judge how much that improvement is due to the employee-retention committees' work. Their efforts to stay in contact with all new employees and help them solve personal problems that prevent them from coming to work probably contributed to the drop, but the economic downturn beginning toward the end of 2001 may have been more important. With fewer decent jobs available, more good workers apply to UPS and fewer are tempted away by opportunities elsewhere. Retaining part-time package handlers remains a major challenge for the company. The recent union contract that raises their pay significantly over time, in combination with these retention and healthy-and-safety programs, may make an important difference.

Several longtime managers, including the regional health-and-safety manager Mike Smith and district manager Bob Severson, attend this particular noonday retention meeting. For the most part, they just listen. Smith finds some opportunities to praise the group's work. When an hourly worker who has been on the job for less than two months talks about how difficult he found the work at first and how, even now, he cannot imagine ever being as good as the more experienced workers around him, Severson, a UPSer for thirty-two years, responds by telling about his first job with the company unloading packages and how many times he banged his head carrying items out of a particular model of package car with low rear doors.

Living Up to UPS Values and Other Challenges

Sometimes UPS's policy of opportunity and talent development comes up against the hard realities of business conditions. Near the end of the noonday shift meeting in Greensboro, articulate and energetic Alphonso Becote complains to Severson that he was told when he started at UPS that he would have a shot at a full-time driver's job after four or five years. Now, after eight years of package handling and work as the hourly chair of health and safety, he still sees no sign of being considered for one of those coveted jobs. Severson tells him that no manager had the right to give him a specific timetable: there is no way to predict in advance how many driver positions will open up. He reminds Becote that the downturn in package volume after September 11, 2001, limited openings for new drivers. Other managers praise the part-time employee's work and say they would like to see him move to a full-time position. None of this is particularly satisfying; it doesn't solve the problem. On the other

Hand, Decote's willingness to speak plainly to the district manager is impressive, and the manager responds respectfully. No one disputes the right of a part-time employee to challenge a senior manager.

As the company has grown and to some degree diversified not just its workforce but its work—into air delivery, supply-chain management, and even financial services—some of the old absolute clarity about what defines a UPSer and how he or she works has been eroded. The need to hire people with specialized talents (pilots and software programmers, for example) has meant that promotion through the ranks is no longer universally the case, although it remains the norm. Two decades ago, longtime employees could take commonality of experience and outlook for granted. As employees without that formative experience as sorters or drivers move up through the management ranks, the character of UPS may begin to change subtly and the firm may begin to lose some of the cohesion that has characterized it for almost a century.

But UPS maintains an usual degree of connectedness and coherence in comparison with many other large corporations. Public relations manager Dan McMackin, who started as a part-time package handler more than twenty-five years ago and then worked as a driver, says that most of the people who come into the public relations department from more volatile outside firms take on the characteristics of UPS: "They start talking about 'we' instead of 'I' and about spending the rest of their careers here." While virtual work and e-mail exchange play larger and larger roles at many corporations, the culture of conversation continues to thrive at UPS. In contrast to a general corporate climate where long tenure among employees and leaders is increasingly the exception, not the rule, lifetime careers and the leadership development and loyalty they imply are still the norm here, and are considered critical to the company's success. The experience of UPS reminds us of the important values of an "occupational community" as well as the challenges of fostering it in an increasingly competitive global economy.

CHAPTER 11

{ *San Francisco, California* }

Craigslist.org

Is Virtual Community Real?

The stories in this book are varied and, in some cases, possibly surprising in what they tell of how people are building relationships—developing social capital—to accomplish a range of purposes. For the most part, though, they are stories of social connection formed in familiar ways: people who live or work in close proximity to one another meeting and talking, discovering common interests and mutual concerns. The technology of electronic connection plays, at best, a small supporting role in these cases. The Do Something Web sites offer resources to community coaches and a place for Do Something kids to report on their projects and learn what kids in other parts of the country have done, but the enthusiastic engagement of participants seems to have everything to do with local activities and little or nothing to do with cyberspace, at least in Waupun, Wisconsin. The Chicago Public Library Web site provides information about the Library and access to some of its materials, but that story is about why the Internet has not made the physical public library obsolete, as some predicted it would. Saddleback Church has a Web presence, but that institution lives in its services and small groups. Other groups we have looked at—Valley Interfaith and HUCTW are the clearest examples—ignore or eschew Internet technology entirely.

Ever since the World Wide Web caught the public imagination and began to grow in the 1990s, however, we have been hearing about the promise of online community. Some of the discussion has focused on the

IN GOOD COMPANY

How Social Capital Makes Organizations Work

Don Cohen
Laurence Prusak

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1

In Good Company

No man is an island, entire of itself;
every man is a piece of the continent, a part of the main.
—JOHN DONNE

Ask what comes to mind when they hear the name "UPS" and most people will mention those chocolate brown delivery vans. They are everywhere in the United States, part of the landscape of its cities and towns, and their brown-uniformed drivers are a familiar presence at homes and offices. The effects of service reductions caused by a Teamsters strike in 1997 showed how enmeshed United Parcel Service had become in the daily commercial life of the country.

Talk to people inside the company—drivers, managers, executives—and many will give you remarkably consistent explanations of what it means to be a "UPSer."[1] They mention long-term commitment and hard work in a "no-nonsense, roll up your sleeves" kind of company where everyone pitches in to get the job done regardless of what their primary responsibilities are. The stories they tell echo one another: of veteran drivers instructing neophytes about how to keep winter winds out of the "package cars" (as the delivery vans are known internally) or where the farmers on a rural delivery route gather on a rainy day; of the eight-months-pregnant

center manager who took over the route of a driver who called in sick, and the national customer service manager who helped load packages during the Christmas rush ("getting his hands dirty like the rest of us"); of the company founder, who personally answered every customer phone call. They talk about the people who have been with the company for thirty years or more who have "brown blood" in their veins, of former mentors, now retired, who still call to see how their protégés are doing.

Beginning as a small messenger-carrying service in Seattle, Washington, almost 100 years ago, the company soon expanded into package delivery for local retailers. Its territory now includes every address in the United States. It delivers by air as well as ground, internationally as well as nationally. In 1999, when UPS publicly traded a small proportion of its stock for the first time, it had about 300,000 employees and was widely seen as an integral part of the new world of Internet commerce. Through almost a century of growth and change—and think of the enormous technological and social change that has occurred between the pre-World War I years and the beginning of the new millennium—the company has maintained a surprisingly consistent "feel." Change continues. As an article in *Forbes* magazine naming United Parcel Service its company of the year for 2000 stated, "UPS used to be a trucking company with technology. Now it's a technology company with trucks."[2] But the values and behaviors that characterized the firm from its inception persist, and current UPSers still regularly cite the ideas and actions of founder Jim Casey to explain what they do now.

People inside UPS attribute its lasting success to elements of its persistent "character." A low turnover rate—around 2 percent for managers—makes long careers typical and helps preserve and transmit the firm's values and behaviors. Along with creating a shared understanding of how UPS works and what its aims are, longevity gives people extensive, diverse experience in the company and well-established networks of relationships. A tradition of promotion from within means that leaders have direct experience with the work of drivers and their supervisors. (Well over 90 percent of those attending the annual meetings of the company's top 200 managers have been with UPS for more than twenty years.) That promotion policy, good salaries for drivers, and employee ownership (with company stock available to anyone who has worked at UPS for thirty days) contribute to a sense of equity in opportunity and reward and joint membership in a common endeavor.

UPS's culture of distributed decision-making and personal interaction coexists with industrial engineering efficiency. Drivers learn the "340 methods," which include such details as how to hold the ignition key when approaching the vehicle and saving a second or two by fastening the seat belt with the left hand while turning the key with the right. At the same time, they have considerable leeway in deciding how to get their day's work done. Groups of drivers meet at lunch to make adjustments in their afternoon delivery loads and to discuss problems; supervisors who get customer requests for schedule changes will commonly ask drivers if the change will work and how best to accomplish it. Explaining his handling of a customer request to return later in the day to pick up a shipment, one driver typically says, "I'm not going to call my supervisor to ask if I should. I already know what he'll say."

This rosy picture is not a full-length portrait of the firm. Not every employee is a committed UPSer; understanding and cooperation are not universal. But trust, understanding, connection, and a sense of membership are widespread. They make the company work and give it a reputation as a good place to work. They are some of the indications and benefits of high social capital at UPS.

What Is Social Capital?

The World Bank defines social capital as "the norms and social relations embedded in social structures that enable people to coordinate action to achieve desired goals." Robert Putnam, the Harvard political scientist, describes it similarly. "'Social capital,'" Putnam writes, "refers to features of social organizations such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit."[3] Our definition, which underlies our exploration of what social capital looks like, how it works in organizations, how investments are made in it, and what returns organizations and individuals can expect from those investments, is as follows:

overall results demonstrate and communicate its conviction that social capital, in the form of these relationships, is important.

ER managers use the survey to identify "most help needed" centers and devote a lot of their attention to changing behaviors there. At a corporate level, the survey provides analysis that can lead to future action. Tracing the rise and fall of the overall index gives the company a measure of how it's doing. Corporate analysts are also beginning to relate employee satisfaction measures to other important indicators and results such as injury statistics, retention rates for part-time employees, and safety statistics. They are considering exploring other correlations—for instance, between customer satisfaction and favorable ERI responses from package car drivers. Survey results are part of UPS's balanced scorecard measure, which looks at organizational performance from four perspectives: people, customers, financial, and operational. Though far from an exact measure of social capital, the ERI survey gives a clear relative calibration of the levels of trust, communication, and connection in the company. The increasingly sophisticated analysis of its results promises to provide important indications of the economic value of these social goods.

Lucent Technologies Value in People survey similarly looks at the state of the organization's culture from the employee's point of view. According to Sue Klepac, Inventor of Possibilities at Lucent, 78 percent of employees respond to the survey, a figure that itself suggests confidence in the organization's commitment to cultural issues.[24] Hewlett-Packard's semiannual employee survey also addresses social capital issues. Like the Motorola Individual Dignity Entitlement survey, it is designed to identify and quickly redress people's problems. Neither company, though, aggregates local results to generate the kind of overall evaluation that UPS has developed and continues to expand. The localness of these social capital assessments makes some sense. Just as "all politics is local," so all social capital is local (virtually by definition; since it consists of relationships, it can only exist between people, not as some quality "out there"). Though global actions affect local social capital for good or ill, local interventions are also important. We believe, however, that not aggregating local results into a general evaluation is a lost opportunity. At any time, these surveys can be an important tool for measuring

mation about how best to repair social capital damage.

Investments in Stability

We believe that the disruptions, uncertainties, and even the expanded possibilities of a volatile age make social capital more important than ever. With the boundaries of organizations remade again and again by mergers, acquisitions, and shifting partnerships, with global teams forming and disbanding and firms continually looking for new ideas, established trust relationships, mutual understanding, commitment, and other elements that characterize high social capital provide the stability and connection that allow organizations to hold together and members of organizations to work together. We all use our established personal networks and communities as tools for making sense of the world, and sense making is one of the most difficult and important activities people and organizations undertake in a changing and uncertain world.

Because volatility threatens social capital and because existing social capital helps manage volatility successfully, leaders need to be aware of the social capital effects of the changes affecting their organizations and take steps to preserve and rebuild their social capital stocks. Social capital surveys can be one item on that agenda. More important, we think, is continued appreciation for social capital and varied investment in it at a time when many cutting-edge commentators argue that some of its essential elements are dead, dying, or outmoded.

One factor affecting organizational volatility that we have not emphasized in this chapter is virtuality: both the idea of the virtual corporation and the communications technology behind telecommuting, virtual teaming, and other forms of work-at-a-distance. The possibility of working online and of people meeting electronically to carry out particular projects certainly contributes to the sense that jobs and organizations, no longer firmly anchored in particular places and times or limited to a local workforce, can change quickly. The subject of virtuality, so important in itself and so deeply connected with social capital issues, is discussed in chapter 7.

social capital. Sometimes companies respond to the crisis of lower sales or stock market valuation by cutting back on the very things—from orientation to more open opportunities to travel budgets for internal meetings—that build social capital. Instead, they should recognize the threat these situations pose to trust and collaboration and devote resources and attention to repairing damaged connections and replenishing potential social capital losses.

Employee Surveys

Ongoing surveys of employee satisfaction can help guide social capital investments at any time, but especially during periods of volatility. They are one of the tools organizations can use both to measure trends in social capital and identify particular problems. Both Motorola and Hewlett-Packard use regular employee surveys to find and fix local problems. Motorola's Individual Dignity Entitlement program treats any negative response to questions about the meaningfulness of work or managerial support as quality failures that must be addressed.[22] The fact of a survey—especially one supported by a long-term commitment of attention and resources—also demonstrates that management recognizes the value of the social health of the organization.

According to Paul Siemion of UPS's human resources department, the company's commitment to a universal annual employee survey grew out of basic social capital questions that company leaders raised at the 1992 annual management conference.[23] They asked, "How do we improve employee relations? How do we capitalize on the spirit of the organization?" In other words, how could the company increase its social capital and get more value from it? Part of the response was an employee relations index (ERI) survey that would give every center manager an annual report on working relationships with his or her people, and give every employee an opportunity to make his or her concerns known. Company leaders believed the survey could identify local problems that managers would immediately address, but they also recognized that it could also be used to diagnose trends in the "spirit" or social health of the organization. In practice, it has helped [illegible] of potential divisive situations (like the 1997 Teamsters strike) and of efforts to repair damage they might cause.

The ERI survey includes questions about the fairness of opportunities for advancement, the cooperativeness of coworkers, openness and trust in the working environment, the degree to which good work is recognized, and the accessibility of managers and their openness to new ideas. It also asks participants how confident they are that management will act on problems identified by the survey. Though far from a complete analysis of organizational social capital, it gives managers and the company as a whole important indications of trends in trust, communication, cooperation, and perceived equity—all important social capital factors.

To make sure that the ERI survey is more than "just a piece of paper," the company invests in an infrastructure to administer it and (especially) to oversee responsive action. Each of UPS's sixty districts has a full-time employee relations (ER) manager; others work at the regional and corporate level, for a total of about seventy-five employees directly responsible for making the survey work. (Most ER managers also have related responsibilities, including training and resolving disputes that involve nonunion employees.) ER managers promote and administer the survey, ensure confidentiality, bring results to the centers, and make sure that a follow-up meeting takes place. In characteristic UPS fashion, results are dealt with locally in face-to-face meetings of employees with their immediate supervisors. ER managers also help centers develop action plans to make necessary improvements. Participation rates have usually been above 75 percent and as high as 81 percent. Immediately after the Teamsters strike, participation fell to 72 percent, but it climbed again past 76 percent in the fall of 1998.

In many organizations, employee survey analysis takes so long that it reflects what the organization was like last year and therefore loses much of its value. At UPS, ERI survey results are returned quickly so they will be relevant to the current situation, and to make sure that problems are promptly addressed. District staff get results three days after the surveys are completed; centers see results in a week. Even the overall corporate report that aggregates local results is generated within two weeks of the survey date. The company's investment in staff to manage the survey and response process, its

Ultimately, the story goes on, Packard honored House for "extraordinary contempt and defiance beyond the normal call of engineering duty."[24]

The main lessons of this story are clear: that the boss cares more about the success of the company than obedience, that he is willing to be proved wrong. Because it is vividly circumstantial and real, telling and retelling this story in the company is more likely to spur profitable disobedience than mission statement claims about meritocracy and risk taking. The story may not connect to the founding myths of HP as Art Fry's story does to the founding of 3M, but it is rich in other company values: the dedication that led House to show a product to customers during his so-called vacation, the value of getting independent confirmation, in this case from potential customers, of a personal hunch (of being, you might say, a sensible maverick). The story also illustrates the importance of persuasiveness and teamwork: House convinced his manager to engage in civil disobedience for the sake of the company. At team-oriented Hewlett-Packard, even the rebels work in teams.

People at UPS tell and retell stories of cooperation and devotion to getting the job done. As we mentioned in chapter 1, one story concerns an eight-months-pregnant center manager who delivered sixty packages in subzero weather when one of her drivers didn't show up. Drivers tell about making deliveries on schedule in weather that kept their competitors from FedEx off the roads. Those stories have the shape of many traditional heroic tales: the lone hero bravely facing a hostile world while lesser mortals fall by the wayside. From one perspective, comparing package deliveries to the quest for the Golden Fleece or the Holy Grail seems laughably extravagant. On the other hand, a modest but genuine echo of those heroic models contributes to driver fellowship and pride in the work.

Failure Stories

Some failure stories are cautionary tales. They recount disastrous mistakes and what they mainly say is, Never, ever do this! The story of Xerox's failure to capitalize on its invention of the graphic user interface computer and the laser printer has become an icon for the company, fueling decades of effort to avoid a similar error in the future. Many failure stories illustrate offenses against the culture. There is the story circulating in one company, for instance, of the employee who overestimated the openness of the president's open-door policy and dropped in to shoot the breeze once too often. The story of his last days at the company helps others calibrate just how open that door is meant to be. Both "thou shalt nots" and "thou shalts" define cultures for their members.

Because most of us find failure stories particularly fascinating and persuasive, they travel freely by word of mouth. They are notoriously hard to capture in text or on videotape. People's reluctance to contribute the stories of their mistakes to "knowledge bases" often frustrates knowledge managers, because these stories often communicate more valuable learning than success stories do. British Petroleum has tried to circumvent the difficulty of capturing stories of failures by putting them in a positive form. For instance, rather than describe the problems that followed when one manager neglected to order critical materials on time, they constructed a hero story to emphasize the importance of timely ordering.[25] This is probably better than ignoring the issue altogether, but it drains away most of the power of stories: of particular circumstances and a particular voice, as well as the magnetic power of disaster—the same force that draws people to slow down to look at a wreck on the highway.

War Stories

Within the safety of small groups and communities, failure stories are much easier to tell. People tell their coworkers about mistakes that they would not admit more publicly. Julian Orr recounts this story, the experience of someone relatively new to Xerox copier repair:

> *Until you break something good you're not a member of the team. . . . it did not occur to me to check the terminals, right, and that of course is something I'll never do again. You should have seen it: I had my back to the machine and smoke is rolling out of the card cage. And the lady says, "OHHH, I think we have a fire." And I say, "Oh, no problem," and went over and unplug it and say, "OK. Now I am a member of the team."*[26]

Sharing the story of a disaster directly with others can actually be a connecting experience, a builder of social capital—it helps make you a member of the team. Listeners who understand your work

and behaviors that define the company and also the way it recalls similar stories that date back to the firm's beginnings. Many decades earlier, company founders bought a mine that they believed would be a source of corundum, a valuable abrasive. When they discovered that they were wrong, they visited potential customers to discover what needs they had that might be met by products made from the lower-grade minerals the mine *did* contain. The Post-it note saga parallels this organizational "creation myth" in several ways. Both stories tell of going out into the field to discover an unrecognized need; both describe cases of turning an unpleasant surprise (the low-grade minerals, the adhesive that wouldn't stay stuck) into something new and useful. "When you get lemons, make lemonade" might be considered a company slogan. Both stories demonstrate persistence and initiative. (Individual initiative is institutionalized in 3M's 15 percent rule, which allows and encourages researchers to spend up to 15 percent of their time pursuing individual projects.)

Here is another company creation myth. One of the authors did some consulting with a firm called NEBS (New England Business Services), a successful manufacturer of business forms—in fact, a Fortune 500 company. Those familiar multicopy carbon paper receipt pads at the dry cleaner or gift shop are made by NEBS. At least fifteen of the twenty or so people he interviewed at the firm told the same story of the firm's origin. In the twenties, they said, the founder of the firm took his automobile to a garage for repairs. The owner of the shop ripped a piece off a brown paper bag hanging on a nail and wrote the cost of the repair on it and when it would be done. Being in the printing business, the founder saw an opportunity in this makeshift system of providing receipts. He devised standard forms to do the same thing better, and they were a great success. The familiar company story expressed a lot about how the employees thought of their work: the down-to-earth usefulness of their products, responsiveness to the need of customers, innovation based on common sense. As it happens, the story is untrue. It survives, though, and continues to work because it represents real truths about the organization; employees recognize themselves and their work in it. We might call this story a true lie. Although it did not happen, it expresses truth about the culture somewhat as the fictional *Huckleberry Finn* expresses truth about America. Sometimes stories and legends that are not literally true tell a powerful truth about company culture and help explain it to newcomers and remind others of who and what they are. Similarly, by the way, some stories tell false truths. That is, they describe real but anomalous events that do not genuinely represent the organization.

Like the central myths of other cultures, from the Hebrews and Greeks to countless nations, tribes, and communities today, organizational myths contribute powerfully to social capital. They are a shared possession that draws people together, as the Greeks of Periclean Athens were drawn together by their joint "ownership" of Homer's great poems. They vividly represent values and behaviors that define the common culture, reminding old-timers who they are and what they believe in and teaching newcomers what it means to belong to the organization. They are the basic stories of identity—and what is identity if not values, beliefs, behaviors, and aims?—that Gardner singles out as so important.

Hero Stories

Myths and hero stories readily fade into each other, but hero stories are much more common and sometimes lack the range and resonance of myths. Hero stories recount successes, most often triumphs achieved thanks to the courage and persistence of one individual. These are incentive stories that can inspire the listener to do likewise. The details of the story tell a lot about the culture. In some organizations, the typical hero story tells the tale of heroic gamble—a hero who risks everything for something he believes in, and wins. David Packard recounts one such story in *The HP Way*:

> *Chuck House was advised to abandon a display monitor he was developing. Instead, he embarked on a vacation to California—stopping along the way to show potential customers a prototype model of the monitor. . . . Their positive reaction spurred him to continue with the project even though, on his return to Colorado, he found that I, among others, had requested it be discontinued. He persuaded his R&D manager to rush the monitor into product, and as it turned out, HP sold more than seventeen thousand display monitors representing sales revenue of $35 million for the company.*